We're getting awfully close to full employment

By Neil Irwin
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There is one prism through which we should analyze the April jobs numbers released Friday and each of the remaining reports in 2017: How close to full employment are we, really?

That is the apparently simple yet oh-so-complex question that matters most for both policy makers at the Federal Reserve and the Trump administration, and for ordinary Americans who want to see bigger paychecks and rising standards of living. In an economy at full employment, pretty much anyone who wants a job can get one, companies have incentive to offer pay raises, and firms are more inclined to offer training, flexible work arrangements and other concessions that benefit their workers.

The good news from the April numbers is that we're quite clearly getting there, if not yet fully arrived.

The headline numbers for April are terrific. The economy added 211,000 jobs in April, and the unemployment rate fell to 4.4 percent. That is not just the lowest jobless rate in a decade; it also matches the lowest level reached during the mid-2000s expansion. The last time it was lower was May 2001, 16 full years ago.

Officials at the Fed are on record as believing that a jobless rate of around 4.7 percent is the level they seek in the longer run, and we're now comfortably below that.

Broader measures of unemployment tell the same story. The so-called U-6 rate, which captures people who are working part-time but want a full-time job, and those who would like a job but have given up looking out of frustration, is also back down to its level before the last recession. It fell to 8.6 percent in April from 8.9 percent, and the last time it was lower was November 2007.

Taken in isolation, these numbers would seem to suggest that the economy is most certainly at full employment and maybe even running a little hot — that is, revving faster than will be possible in the long run without just fueling inflation.

But we can't take the unemployment rate in isolation. Other data, including in the April report, show a more nuanced picture, one that suggests there is room to run. One of the central economic problems of our time is prime-aged adults, especially men, who are out of the work force entirely and aren't even looking for a job. The number of people not in the labor force actually climbed by 162,000 in April, and the proportion of the population in the labor force edged down a tenth of a percent.

A single month's moves may well be random blips, but if you look at these and related numbers over a longer horizon, it's hard to find a discernible trend. The labor force participation rate was 62.8 percent in April 2016 and 62.9 percent in April 2017.

There can be a lot of churn beneath those numbers. Baby boomers who are retiring are being offset by younger workers entering the labor force, leaving the overall ratio roughly level. And in fact, the proportion of 25- to 54-year-old Americans working has risen to 78.6 percent in April, up nearly a full percentage point over the last year.

But that number was 80.3 percent at the peak in the last economic cycle and peaked at 81.9 percent in 2000, which implies that there are millions more people in prime working years who might be coaxed into the work force if conditions were right.

Which brings us to wages. Average hourly earnings rose 0.3 percent in April, and are up 2.5 percent over the past year. But that's really nothing special — indeed, it's broadly consistent with the kind of wage growth that has been evident for years. What's more, while numbers like that amounted to meaningful gains in living standards when inflation was very low, with inflation measures getting near 2 percent, a mere 2.5 percent gain in pay doesn't amount to much at this stage of the expansion.

There are definitely signs that this is changing. American Airlines announced an 8 percent rise in pay for its pilots and a 5 percent rise for flight attendants last month, to the consternation of Wall Street. A range of companies has described shortages of qualified workers — construction companies in Dallas, restaurants that rely on seasonal workers who are often immigrants.

But beyond employer caterwauling, the best sign that the economy has reached full employment will be if wage gains return to their pre-recession norms. Wage growth for nonmanagerial workers of 4 percent or more was normal in 2006 and 2007; now that number is only 2.3 percent.

Yes, inflation is lower now, and productivity growth is weak, both factors that suggest we should expect weaker wage growth. But nonetheless, it's not worth declaring victory and deciding that full employment is achieved when employers are still not showing it in their pay practices.